

Community Development Commission

March 31, 2005

To: Each Supervisor

From: Carlos Jackson, Executive Director

SUBJECT: EXERCISE OF LEASE OPTION AT 2 CORAL CIRCLE, MONTEREY PARK, AND TERMINATION OF LEASE AT 1, 11 & 17 CUPANIA CIRCLE, MONTEREY PARK

The Commission has evaluated the exercise of a five-year lease option at our headquarters facility located at 2 Coral Circle, Monterey Park, and the termination of the auxiliary headquarters lease at 1, 11 & 17 Cupania Circle, Monterey Park. The following outlines the Commission's near-term facilities plan.

2 Coral Circle, Monterey Park

The initial lease term of the 85,300 square-foot headquarters facility terminated March 26, 2005. The Commission is currently a holdover tenant pursuant to the terms of the Original Lease. The previous very favorable lease rate of \$49,474 per month net will increase to a market rate of \$97,143 per month net. The Commission sought to secure an owned facility through a capital lease in 2004, however, that effort was unsuccessful and the lease option is a short-term facilities solution. The Commission intends to undertake the process of selecting a new owned facility in order to lower and fix long-term facilities costs. That process will require three to five years to complete.

In evaluating the exercise of the five-year lease option, the Commission requested an advisory preliminary building evaluation from DPW. That review noted the building does not meet the 1999 County building code with respect to seismic characteristics. The Commission contracted with URS Corporation to conduct a seismic retrofit cost study, which indicated construction costs of approximately \$1,000,000. However, the building meets all applicable building code requirements of the City of Monterey Park and the landlord will not participate in the cost of seismic retrofit construction.

The Commission, after further discussions with the CAO and DPW, intends to proceed with the exercise of the lease option without incurring the costs of the seismic retrofit. The construction costs, amortized over the option term, would add approximately \$1,250,000 to the total five-year base rental cost of \$5,828,580, creating a financial hardship on the Commission's diminishing annual budgets. This is a business decision based on cost, as the Commission has determined it is not prudent to make that level of a capital improvement to a leased property.

Each Supervisor
March 31, 2005
Page 2

The Commission will holdover on the current Coral Circle lease for up to three months while the lease option negotiations with the landlord are completed and the Commission can present the exercise of the lease option to your Board. The holdover is permitted under the existing lease terms and the funds are contained in the Commission and Housing Authority approved FY 2005-2006 budgets.

1, 11 & 17 Cupania Circle, Monterey Park

The initial lease term of the 24,116 square-foot 1, 11 & 17 Cupania Circle auxiliary headquarters facility also terminated on March 26, 2005. The Commission's space use analysis has determined that the space requirement can be accommodated by incorporation into the existing 2 Coral Circle and 4800 East Cesar E. Chavez facilities; together with the co-location of approximately 10,000 square feet of records storage to the County's warehouse facility at 9320 Telstar Avenue, El Monte. This opportunity is made possible by the LAUSD's decision not to proceed with the acquisition of the 4800 East Cesar E. Chavez site. The consolidation will reduce the Commission's facilities cost by approximately \$1,500,000 over five years, partly offsetting the significant increase in facilities costs at the 2 Coral Circle headquarters building.

To implement the consolidation to existing facilities and co-location with the County storage facility, the Commission will holdover on the current lease Cupania Circle for up to three months. The holdover is permitted under the existing lease terms and the funds are contained in the Commission and Housing Authority approved FY 2005-2006 budgets.

Should you have any questions please feel free to contact me directly at (323) 890-7400.

CJ:MP

c: David E. Janssen, Chief Administrative Officer
Each Deputy